BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendrayer	Chair
Marshall Johnson	Commissioner
Ken Nickolai	Commissioner
Thomas Pugh	Commissioner
Phyllis A. Reha	Commissioner

In the Matter of a Petition by Northern States Power Company d/b/a Xcel Energy for a Renewal of Variances to the Fuel Clause Adjustment Rider

ISSUE DATE: July 27, 2005

DOCKET NO. E-002/M-05-613

ORDER EXTENDING VARIANCES AND REQUIRING REPORTS

PROCEDURAL HISTORY

On April 15, 2005, Northern States Power Company d/b/a Xcel Energy (Xcel or the Company) requested renewal of variances to the Fuel Clause Rules (Minn. Rules, Part 7825.2390 through 7825.2920) for an additional 12 months. Specifically, Xcel requested that the Commission grant a variance to Minn. Rules, Part 7825.2600, subp. 2 and 7825.2400, subp. 13 to allow the monthly Fuel Clause Adjustment (FCA) to be based on the use of a month-ahead forecast of energy costs. Xcel also filed information it said complied with requirements imposed on it in Docket No. E-002/M-04-595.

On June 7, 2005, the Department recommended that Xcel address in its reply comments the reporting requirements established in Ordering Paragraph 4 of the Commission's August 14, 2004 Order in Docket No. E-002/M-04-595 and discuss whether the Company plans to make any modifications to its forecast to reflect recent oil and gas price trends.[1]

The Department also recommended that the Commission grant Xcel the variances it requested but also require Xcel to 1) provide certain information in its next Forecasted FCA Compliance Report; 2) provide certain information in its monthly automatic Adjustment (AA) filings; and 3) if its forecast deviates from actual fuel costs per kWh by 20 percent or more, report this in its monthly AA filings two months later.

On June 17, 2005 in Reply Comments, Xcel stated that it appreciated the Department's general support for a forecasted FCA, suggested that three reporting requirements could be eliminated, and recommended that the Commission approve the proposal to continue to use a forecasted FCA with a monthly true-up mechanism.

On July 14, 2005, the Commission met to consider this matter.

[1] On June 17, 2005, Xcel's Reply Comments addressed these items.

FINDINGS AND CONCLUSIONS

I. Background

The Commission's FCA rules, Minn. Rules, parts 7825.2390 through 7825.2920, establish a mechanism for passing the changes in fuel and purchased power costs to customers through a monthly adjustment on customers' bills. Minn. Rules, parts 7825.2400, subp. 13 and 7825.2600, subp. 2 direct that the monthly adjustment be based on the most recent two month moving average of the cost of fuel and purchased energy.

The Commission first granted Xcel a variance from Minn. Rules, parts 7825.2400, subp. 13 and 7825.2600, subp. 2 (allowing it to calculate the FCA based on a month-ahead forecast of sales and fuel/purchased energy costs with a monthly true-up for actual sales and costs) in its June 27, 2000 Order in Docket No. E-002/M-00-420.

The Commission extended these variances in its July 27, 2001 Order in Docket No. E-002/M-01-477, its July 17, 2002 Order in Docket E-002/M-02-645, its July 10, 2003 Order in Docket E-002/M-03-585, and its August 13, 2004 Order in Docket E-002/M-04-595. The 2004 Order extended the variances to July 15, 2005.

II. Request for Renewal of Variances

Xcel requested that the Commission renew one-year variances from Minn. Rules, parts 7825.2600, subp. 2 and 7825.2400, subp. 13 for the period from July 15, 2005 through July 15, 2006. The Company stated that the variances would provide for uninterrupted application of the forecast FCA method.

Xcel stated that the forecast FCA with a monthly true-up has been successful in providing proper price signals and that the conditions for the variances continue to be met: 1) enforcement of the rules would impose an excessive burden on itself and others affected by the rule; 2) granting the variance would not adversely affect the public interest; and 3) granting the variance would not interfere with standards imposed by law.

III. Extent of Continued Reporting Requirements

In its initial comments, the Department recommended that the Commission direct Xcel to provide certain information in its next Forecasted FCA Compliance Report; 2) provide certain additional information in its monthly AA filings; and 3) if its forecast deviates from actual fuel costs per kWh by 20 percent or more, report this in its monthly AA filings two months later.

Xcel objected only to continuing to be required to report in its next Forecasted FCA Compliance Report regarding three of several items identified by the Department. The three items that the Company objected to reporting on were: 1) whether the pilot created any new lead/lag issues warranting consideration; 2) customer reaction to the pilot; and 3) the effects of the financial tools that the Commission has allowed Xcel to use and flow through the FCA as a result of Docket No. E-002/M-99-577. The Company argued that these items were no longer warranted.

Subsequently, the Department agreed that information was no longer needed regarding the three issues identified by Xcel.

IV. Commission Analysis and Action

The Commission finds that extending the variances to permit Xcel to use a forecasted FCA is appropriate pursuant to Minn. Rules, Part 7829.3200. First, enforcement of the rules would impose an excessive burden on Xcel and others affected by the rule. Second, granting the variance would not adversely affect the public interest. And third, granting the variance would not interfere with standards imposed by law. As a consequence, the Commission will extend the variances as requested.

Regarding the reporting requirements established in previous Orders, the Commission finds that all of these requirements are appropriate and will continue them, except for the three objected to by Xcel: reporting on lead/lag, customer reaction, and financial instruments. Based on the experience to date, it is unlikely that lead/lag issues would arise due to the forecasted FCA. Regarding the requirement to report customer reaction, the Commission finds that this can be ended because it appears that the Company has received no negative reaction from customers due to the variances. Finally, it appears that the impacts of the Company's financial instruments are identical whether a forecasted method or an historical FCA is used.

Accordingly, the Commission will direct Xcel to continue reporting all the items listed by the Department in its comments except the lead/lag, customer reaction, and financial instruments issues.

ORDER

1. Xcel is hereby granted an extension of variances to Minnesota Rules, Parts 7825.2400 and 7825.2600 for one year or until the Commission takes other action pursuant to Xcel's Petition for MISO Day 2 cost recovery in Docket No. E002/M-04-1970, whichever comes first, to:

   (a) allow the monthly FCA to be based on the use of a month-ahead forecast on energy costs;

   (b) allow the monthly FCA to be prorated based on the number of days in each billing cycle; and

   (c) allow a monthly true-up of the differences between costs and recovery.

2. In its next Forecasted FCA Compliance Report, Xcel shall

   (a) provide a calculation of what the monthly FCA would have been absent this change;

   (b) provide a calculation of what the monthly FCA was under the pilot;

   (c) describe how closely the FCA under the pilot program mirrors actual costs,

   (d) discuss alternative true-up methods;

(e) include the Company's recommendations for the future of the pilot; and

(f) describe and explain the performance of the forecast in predicting fossil fuel costs, purchased energy costs, nuclear fuel costs, system MWh sales, net system costs, and MISO Day 2 Costs.

3. In its monthly AA filings, Xcel shall

(a) report whether MISO Day 2 costs are included in its forecasted costs; and

(b) if so, report on the effect of MISO Day 2 costs on the forecast.

4. Xcel shall, if its forecast deviates from actual fuel costs per kWh by 20 percent or more, report this issue in its monthly AA filing two months later.

5. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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